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JAPANESE INCOME DISTRIBUTION

Summary

Economic development cannot be measured solely in terms of the overall size of an economy or the level of per capita income; it is also important to consider how income is distributed among the population. Equitable distribution of income promotes social stability and general welfare. In a free-market economy, though, progress results in winners and losers, and some degree of inequality is bound to exist. Moreover, the higher saving rate of upper income groups tends to concentrate a greater share of assets in their hands over time.

Postwar Japan has achieved a relatively even distribution of income that has encouraged economic growth and helped obliterate prewar class divisions. During the last decade, though, there has been some slippage in the share of the population identifying itself as middle class. This may reflect the widening in wage differentials, complaints that the tax system is unfair to wage earners, the soaring price of land and the impact of the strong yen on regions dependent on manufacturing industries. Government policies that would promote a balanced distribution of income during the economic restructuring that is taking place include measures to limit land prices, promote regional development, investment in social infrastructure and tax reform.

Japan -- the Richest Nation?

Statistically, the Japanese are the richest people on earth. At current exchange rates (Y150=$1.00), Japan's per capita income in 1986 was $18,200, or

about 5 percent more than the United States' $17,400. Personal financial assets per person in the two countries were approximately equal at about $30,000 in 1985. In addition, about 70 percent of the Japanese population own land, which is generally very costly. Japan is also the world's largest creditor nation, with $180.4 billion in net foreign assets at the end of 1986.

Still, the appreciation of the yen has produced a sense of insecurity in Japan rather than a feeling of enrichment. One reason is that only about half of the windfall profits from the strong yen and falling oil prices had been passed on to consumers as of the end of 1986, estimates the Economic Planning Agency. Households, though, have felt the yen's impact in the form of rising unemployment and small nominal wage gains. Dissatisfaction with Japan's standard of living despite the country's prosperity has given rise to the expression "A rich country, but a poor people."

This year's government white paper on construction concluded that the population is not receiving the full benefits of Japan's affluence. The nation's social infrastructure lags behind other industrial countries in many areas, including sewage systems, urban parkland and roads (see Table 1). In addition, the Japanese have less leisure time and live in smaller homes, due in large part to the high price of land.

Table 1: International Comparison of Social Infrastructure

Indicator	Japan	Great Britain	West Germany	France	United States
Diffusion ratio of sewer systems (percent)	33% (1983)	97% (1976)	88% (1977)	65% (1975)	72% (1977)
Urban parkland* (square meter per person)	2.1 (1983)	3.4 (1976)	37.4 (1984)	12.2 (1984)	19.2 (1977)
Roads (meters of paved road per car)	13.7 (1982)	18.5 (1982)	18.7 (1982)	31.9 (1982)	33.0 (1981)
Expressways (miles per 10,000 vehicles)	0.5 (1985)	1.0 (1983)	2.0 (1983)	1.6 (1983)	2.7 (1980)

*In New York City for the United States; national capital of other countries.

Source: Ministry of Construction

Trends in Japan's Income Distribution

The sharp disparities in the nation's income and wealth were drastically reduced by wartime destruction and inflation. An estimated 40 percent of

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Japan's capital stock was destroyed during World War II and the rampant inflation from 1945 to 1949 wiped out much of the value of public and private financial assets. In addition, occupation policies, particularly land reform and the dissolution of the powerful conglomerates called zaibatsu, were important.

Rapid economic growth continued to encourage greater equality until the first oil crisis struck in 1973. Until then strong demand for labor reduced virtually all wage differentials -- by age, education, sex, size of employer and occupation -- by big margins. In addition, the migration of workers to urban areas cut the number of small farms, helping to equalize income distribution in the agricultural sector. And the labor shortage reduced the rural-urban income gap by increasing the share of non-farm earnings in farm household income.

Government tax policy also played a role. Japan's progressive personal income tax system has always been one of the steepest in the world and its inheritance taxes are relatively high. This impact on income distribution, though, was balanced by preferential treatment of dividend and interest income. It should also be noted that the trend toward a more even distribution of income was offset to some degree by an apparent rise in the concentration of wealth resulting from the rapid surge in the price of assets. Between 1952 and 1973 the price of urban land rose 58 times, outstripping the 18-fold increase in nominal GNP.

By the onset of the first oil shock, Japan had reached a level of equality in income distribution comparable to that of the United States and other industrial countries. One study, for example, found that income distribution in Japan in 1969 was more equal than in the other six major industrial countries, although less equal than the Scandinavian countries.[1] The ratio of after-tax income of the top fifth of the population to the lowest fifth was 5.2 in Japan compared to 9.5 in the United States. In 1980 the after-tax income of a company president in Japan was on average 7.5 times higher than the starting pay of a new employee, a smaller differential than in many Communist countries.

Japan's egalitarian nature is reflected in its social stability, low crime rate and an infant mortality rate that is the lowest in the world. Moreover, there is no substantial break between wealthy and poor areas in Japanese cities as in most Western cities, and no true slums. The relatively even income distribution played a role in the country's rapid economic growth by boosting demand for consumer durables, permitting mass production, which in turn helped to lower unit costs. In addition, most working families were able to send their children to high school and college, providing industry with an educated labor force. Some analysts, contrasting Japan's social harmony with the class divisions found in some European countries, cite income equality as a factor in Japan's economic growth.

Japan's Middle-Class Consciousness

Government surveys report that the share of people who consider themselves middle class reached a peak of 90.7 percent in 1975 (see Table 2), indicating that the rising standard of living and shrinking income differentials

[1]Malcolm Sawyer, "Income Distribution in OECD Countries," OECD Economic Outlook, July 1987.

Table 2: Survey on Class Status

A. All respondents

Survey Date	Upper Class	Upper-Middle Class	Middle-Middle Class	Lower-Middle Class	Lower Class	Don't Know
1960	0.4%	3.9%	40.8%	31.5%	13.6%	9.9%
1965	0.6	7.3	50.0	29.2	8.4	4.5
1970	0.6	7.8	56.8	24.9	6.6	3.3
1975	0.6	7.9	60.4	22.4	5.1	3.6
1980	0.6	7.4	54.4	27.5	6.7	3.3
1984	0.5	7.9	54.6	27.1	6.6	3.3
1985	0.5	6.4	53.7	28.4	8.1	2.8
1986	n.a.	6.4	51.8	29.4	n.a.	n.a.

B. 1985 Survey by age bracket

Age	Upper Class	Upper-Middle Class	Middle-Middle Class	Lower-Middle Class	Lower Class	Don't Know
20-24	0.2%	10.9%	54.7%	24.0%	5.1%	5.1%
25-29	0.9	8.1	60.6	23.5	4.5	2.3
30-34	0.1	7.2	58.1	26.9	5.6	2.0
35-39	0.7	5.3	55.3	31.3	5.3	2.2
40-44	0.2	5.8	55.5	28.2	7.8	2.4
45-49	0.4	5.9	52.8	30.0	8.8	2.1
50-54	0.7	6.3	54.8	27.4	9.1	1.7
55-59	0.7	5.5	51.6	30.3	10.4	1.5
60-64	1.0	7.0	49.9	30.1	8.9	3.0
65-69	0.2	4.3	45.2	32.1	14.0	4.1
Over 70	0.5	6.7	45.6	26.5	13.2	7.4

Source: Management and Coordination Agency

have obliterated class distinctions. Bad memories of the prewar class system have made equality an accepted social ideal. The Japanese characterize the middle class, which is as much a cultural category as an economic one, as diligent and frugal workers. The upper class, in contrast, is considered economically unproductive (see Table 3).

The distribution of income followed no definite trend in the 1970s and early 1980s. A calculation of income equality by the EPA, though, indicated it worsened in seven out of the ten years following the first oil shock (see Table 4). The slight trend toward inequality, which has also occurred in the United States during the past decade, is reflected in the falling share of the population calling itself middle class.

Table 3: Attitudes Toward Wealth in Great Britain, United States and Japan

What do the rich do?	Great Britain	United States	Japan
Help economy	25%	39%	12%
Support culture	10	13	5
Exploit others	27	18	12
Live a life of leisure	24	15	69
Other	14	15	2
How do people get rich?			
Inheritance	32%	20%	51%
Ability	9	13	20
Advantages	9	7	2
Hard work	29	43	12
Luck	13	9	9
Other	8	8	5

Source: A Gallup poll reported in The Economist, August 23, 1986, p. 50.

Table 4: Gini Coefficient Measure of Income Distribution, 1971-83

Year	Gross Income	Disposable Income
1971	.179	.167
1972	.180	.167
1973	.179	.167
1974	.188	.178
1975	.188	.180
1976	.186	.175
1977	.184	.171
1978	.188	.175
1979	.180	.166
1980	.183	.168
1981	.187	.172
1982	.187	.170
1983	.188	.170

Note: An increase in the Gini coefficient indicates a less even income distribution.

Source: Economic Planning Agency, Kokumin Seikatsu Hakusho, 1984, pp. 25-27.

One reason for the recent trend is the widening of income differentials since the first oil shock (see Table 5). The income gap between nonfarm and farm workers has increased in favor of the latter, while government employees have gained relative to workers in the private sector. In addition, executive income has outpaced other wages. In the private sector, the wage gap between industries, male and female workers, large and small enterprises, and white collar and production workers has been widening since the last half of the 1970s.[2]

Table 5: Trends in Income Differentials

(100 = national average for nonfarm households)

Year	Blue-Collar Workers	White-Collar Workers	Government Workers	Executives	Farmers
1960	78.1	123.2	106.6	265.6	--
1964	84.3	121.7	108.4	232.3	106.4
1968	87.0	110.8	113.7	187.0	120.6
1972	81.1	113.9	110.5	193.8	118.2
1976	79.4	107.1	118.3	195.8	124.8
1979	81.1	104.8	114.7	201.8	123.3
1982	82.5	109.0	116.2	205.5	123.1

Source: Masako Ozawa, "The Dawn of the Stratified Consumption Age," Economic Eye, September 1985, p. 21.

Not surprisingly, the disparity between farm and nonfarm net financial assets increased at a faster pace than the income gap (see Table 6). In the Tokyo area, in particular, wage earners hold fewer financial assets than farmers. The gap reflects the accumulation of farm households' higher incomes, as well as the large sums earned by selling off parcels of farmland for residential use.

Table 6: Trends in Net Financial Asset Differentials

(100 = national average for nonfarm households)

	All of Japan		Tokyo Area	
Year	Nonfarmers	Farmers	Wage and Salary Earners	Farmers
1964	100.0	101.6	121.1	--
1968	100.0	116.4	94.3	166.1
1972	100.0	142.7	86.4	231.4
1976	100.0	170.4	94.1	277.3
1979	100.0	203.3	76.1	306.0
1982	100.0	201.3	90.8	306.3

Source: Masako Ozawa, "The Dawn of the Stratified Consumption Age," Economic Eye, September 1985, p. 21.

[2]Masako Ozawa, "Japan's New Class Society," LTCB Research, September 1984.

Developments during the past few years have heightened concern over this issue. A January 1987 poll, for example, reported that 60 percent said the gap between the rich and poor was widening. The erosion of middle class identity may reflect dissatisfaction with the slow growth of real disposable income in recent years. Although labor productivity rose by more than 3 percent a year from 1975 through 1985 EPA reports show that real wage hikes averaged only 1.5 percent a year. In contrast, the average inflation-adjusted wage hike of 6.3 percent from 1970 to 1975 was substantially higher than productivity gains. The tax system is another source of dissatisfaction. The Management and Coordination Agency reported that 88.5 percent of wage earners polled last month said the tax system was unfair. Ministry of Finance data show 86 percent of salaried employees paid income tax in 1985, compared to 41 percent of the self-employed labor force and 20 percent of the farmers.

The appreciation of the yen since February 1985 has also had an uneven impact on Japan's economy. The decline of smokestack industries, such as steel and shipbuilding, has depressed some regions of the country. Unemployment rates of 4.5 percent in Hokkaido and 4.1 percent in Kyushu in May were well above the national average of 3 percent. In contrast, Tokyo and other cities that depend more on service-sector industries have escaped the brunt of the high yen.

One of the causes of the growing sense of deprivation in the middle class is the soaring price of land that threatens to divide Japan into two classes -- those who own land and those who never will. Driven by speculation, prices in residential and business districts in central Tokyo rose 76 percent last year, and the price spiral is now spreading to the suburbs and other major cities. The surge has created instant millionaires while making it more difficult for families to purchase homes. The average price of a home is more than six times annual income in Tokyo, or more than double the ratio in New York and Los Angeles.

Conclusion

According to the 1984 Family Income and Expenditure Survey, the saving rate of families in the top fifth income bracket was almost 50 percent higher than those in the bottom fifth. A larger share of income for the wealthy, therefore, would boost saving and discourage consumption, frustrating the economy's shift to domestic demand-oriented growth. It could also result in labor problems and diminish labor's incentive to work.

Tokyo is under pressure from abroad to abandon some of the policies that have promoted equality. Its agricultural program has boosted rural income while imposing high costs on both consumers and taxpayers. The producer price of rice in Japan, for example, is at least six or seven times the international level. In addition, measures to protect small but inefficient retailers have maintained employment in that sector. The 1986 Maekawa report recognized the inefficiency of the distribution system in calling for the "streamlining of distribution mechanisms" as part of its plan to restructure Japan's economy.

Although these reforms could exacerbate discrepancies in income, there are several policies the government could pursue to encourage an even distribution of income. Perhaps the most important is to control soaring land costs by

boosting the tax on farmland in urban areas. The Ministry of Agriculture, Forestry and Fisheries reports there are 4,300 farming households occupying a total area of 16 million square meters (3,952 acres) within the city limits of Tokyo. Although the differential varies between areas, the tax on farmland is generally only 1 to 2 percent of the tax on residential land so long as the owner intends to continue farming for at least 10 years. Higher taxes would encourage farmers to sell the land and would expand the supply of residential real estate. The National Land Agency and the Construction Ministry are currently studying possible changes in the land tax system.

Other policies include investment in social infrastructure and regional development to aid areas hard-hit by the strong yen. In addition, tax reform that increases the share of indirect taxes would benefit wage earners, who are falling behind farm households. And, finally, measures to boost competition and lower prices would benefit Japanese consumers. Taking account of the differences in consumer prices in Japan and the United States, the Organization for Economic Cooperation and Development estimates that per capita income in Japan was still about 30 percent below this country's level in 1986.

For further information, contact Randall S. Jones.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

NOTE

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